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Future of Employee Benefits

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Moderator: DORN H. SWERDLIN
Panelists: GEORGE AMATO†
ANNE MCKILLIPS‡

Summary: This session focuses on the trends and future prospects for the employee benefit field. How is it changing and where will it be in the future? What must actuaries do to keep up and add value to the future employee benefits market?

Mr. Dorn H. Swerdlin: I'm a member of the Actuary of the Future Section. We're fortunate to have two experienced and knowledgeable speakers in the employee benefits business: Anne McKillips and George Amato. I've worked with both of these speakers personally, and I can speak about their knowledge and professionalism. I would like to highlight briefly my background. I started working in 1968 for insurance companies. My first job was at Metropolitan Life in New York. Then, after five years of insurance company work, in 1973 I went to work for what then was a Big Eight CPA firm in Atlanta. It was in the pension side of the business. I've worked in the pension side since then. I worked with CPA firms up until 1980, at which time I started my own firm in Atlanta. We've been building up that firm since then.

We're going to try to address questions like the following: what will the employee benefit business look like in the future? How will the role of the benefits actuary

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†Mr. Amato, not a member of the sponsoring organizations, is President of Faro Consultants International, Inc. in Washington, DC.

‡Ms. McKillips, not a member of the sponsoring organizations, is President of AH Enterprises, Inc. in Atlanta, GA.

change in the future? What should employee benefits actuaries be thinking about and doing to get prepared for this future? And what do current employee benefits actuaries think about the future of employee benefits? George Amato will share with us the results of an informal survey that he conducted with several actuaries. What will my employer look like? Will I be self-employed?

I'll introduce Anne McKillips first. She is the founder and president of AH Enterprises, Inc. and Total Benefits Communications, Inc. Mrs. McKillips works with a variety of providers of employee benefits products and services. She has over 20 years of experience in the pension and benefits industry. She has published a number of articles on various employee benefits issues. She has also authored the books, *The Future of Pensions* and *The Future of Pensions, An Update.* Before forming AH Enterprises, Inc. in 1989, she was a senior research associate for the Life Office Management Association, where she was responsible for employee benefit research and related projects for the life and health insurance industry.

She is the founder and remains an active member of the Atlanta Employee Benefits Group, the Atlanta Pension Study Group, and the Retirement Plan Operations and Client Services Group. She's active in many professional organizations, and she's currently on the steering committee of the Southern Employee Benefits Conference. She's on the program committee of Working in Employee Benefits.

Ms. Anne McKillips: Dorn called me a while back and asked me to speak on this topic because he had heard me speak at a couple of other meetings. The focus of my speech is going to be, what are you going to do with the rest of your life now that you have this wonderful degree? And what does it do to employee benefits? What I do want you to do is to start thinking, for just a moment, about when you were growing up. Think back to when you were that age. There is a book out called *Clicking* that was written by Faith Popcorn and Liz Marigold, and it was published in 1996. Think of children playing on a playground, and they're talking about what they want to be when they grow up. Some of them would say an astronaut, a doctor, or maybe a fireman. And of course, then we're going to have some of them saying, a cowboy, right?

All right, flash forward to the future. How did those career choices turn out? The astronaut didn't go into orbit because NASA and the space program has been downsized. He's now working as a ticket taker at Walt Disney's Space Mountain. The doctor is paying off her $60,000 student loan. She can't afford to go into private practice because of the high cost of office set-up, diagnostic equipment, and malpractice insurance. So she took a job with an HMO. She makes $65,000 a year, which is less than the salary her father makes who never graduated from college. As for her dream of being a sensitive, caring physician, the HMO encourages her to see as many patients as possible. In fact, she's penalized if those patients rebook often. The fireman is about to be laid off. The city where he works is about to privatize the fire department. His new employer is hiring recruits for less than half his salary. He has a young child from a second marriage, and only a small pension. He needs to figure out the next half of his life very quickly. Then we have the cowboy, who's doing just fine. He's settled in Montana. He worked on a ranch, he saved his paychecks, and he plunks down $100 an acre for land as far as he can see. Lately, land values in Montana have been skyrocketing. They've been driven up by West Coast refugees who are fleeing smog, fire, and earthquakes, floods and a toxic lifestyle. Now his land is worth nearly $2,500 an acre. Our cowboy is galloping on land worth $5 million bucks. Falling in love with cowboy movies as a kid sure paid off.

But what's the message here? Traditional career planning is useless and it violates where we all started out. Didn't you have this career plan where you went to work for a company and you moved up, and when you got to be 60 or 65, you got a gold watch and you lived happily ever after? Not anymore. Why? We're in an era of very rapid change, thanks to technology. Old structures and old rules are being demolished every single day. Or, to sum it up in one of the corporate buzz words of the decade, companies are reengineering. They know they can do more with less.

How many times have you already heard the tired phrase "lean and mean" when an employer describes a particular department, especially one that's not a profit center? I mean departments like human resources (HR), accounting, finance, legal, underwriting, and actuarial. In other words, the industrial age has given way to the information age. I'd like to paraphrase John Huey's "Waking Up to the New Economy" in *Fortune*, June 27, 1994. Have you ever received a birthday card that sang "Happy Birthday to You" when you opened it up? Anybody ever seen those? Or Happy Anniversary or Merry Christmas and various other things. When you did that you held in your hand more computer power than existed in the entire world before 1950.

Think back to what a calculator cost ten years ago. Fifteen years ago, 20 years ago. Remember, back in the 1970s, you had to have a Texas Instruments calculator. These little calculators were like $140. They're $9.99 at Revco now.

Companies are driven toward an economy based on knowledge, workers, and service skills. Service and quality are what people are after. Peter Drucker, in his *Post Capitalist Society* writes, an estimated two-thirds of U.S. employees work in the service sector, and knowledge is becoming our most important product. Competitive reality is the acquisition of goods and services at a lower cost, i.e., the bottom line. Employee benefits careers are being shaped by this rapidly changing world that we're in today. The newest direction employee benefits have taken in the 1990s is the shift to the employee responsibility and the employee choice. And that is on both the health and welfare side and on the retirement plan side. In about four or five months, you're going to get your statement and pick out which health plan you want, which disability plan you want, and which life insurance plan you want. You also have to decide where you want to invest your 401(k) dollar next year.

You probably will no longer have a career that moves upward in a straight line. You'll hear the terms lateral move, lateral position. You will zigzag along a career path. You'll need it to manage your career and adapt to the change just as organizations are adapting to change in the 1990s. Let's discuss where these employee benefits jobs are headed, and what skills you'll need to have as you move forward. As the owner of a business involved in research, I always go backwards to the beginning to find the answers. The trend does appear. Most opportunities are either on the vendor or service provider side, or even one step further, they're with firms that provide products or services to employee benefits vendors or service providers.

Where are the jobs? You have corporate positions. There are a number of companies that do have actuaries on staff internally in the corporation. Those are going away. But a corporate position is in any benefit department of a corporation or other company. That person could be in HR, administration, the legal department, payroll, finance, or benefits. In some companies, the employee benefits professional may be an assistant to the president or office manager. This professional just works with the employees in that company on benefit-related issues. These roles and the companies are being reengineered or reinvented to do more with less. So remember they must live by "lean and mean."

Then we have the vendor or service provider organization. By my definition, an employee benefits vendor organization is any firm, company, or other organization that provides any product, service, or any combination of a product or service to a buyer or user of employee benefits products or services. This would include software companies, law firms, accounting firms, insurance companies, CPAs, banks, money managers, HMOs, PPOs, publishing companies, or brokerage firms, just to name a few. An employee benefits vendor organization is any firm that markets or provides any product or service to an employee benefits professional. Looking over the roster of attendees here, almost everyone at this conference worked for that type of an organization. There are some exceptions, but predominately that's where you must have a mark.

The fastest growing area is vendor-to-vendor organizations. That is an organization that employee benefits vendors or service providers turn to for assistance. This includes specialty consulting firms, communication and education firms, technology firms, actuarial firms, accounting firms, law firms, and research firms. This is, by far, the fastest growing area. But why are there so many jobs out there with vendors? The current answer is outsourcing.

Jeffrey Hallet is an author of a book called *Worklife Visions*, and he had a synopsis of that written up in the September/October 1995 issue of *Report on Issues in Human Resources.* "The new rules of competition have made it clear that organizations must strive to be 'low-cost producers'." That's not a new phrase to anyone in this room. This now includes the area of employee benefits—both in the cost of the benefits themselves, as well as the cost of the administration of those benefits. In today's world, the bottom line is most important and the bottom line must be printed in black. These costs are being shifted to the employee.

Is there outsourcing? This is based on a survey from Coopers and Lybrand. Of the 390 fastest growing companies, 46% of the companies outsource benefits; 21% outsource audit; and these numbers are growing.

How many of you truly understand the following concepts? Outsourcing, restructuring, downsizing, subcontracting, short-term or temporary assignment, contract employment, telecommuting, or contingent employee. What do they all have in common? Strategic cost reduction, improved quality, and service. Outsourcing, however, leads the way for cost reduction. It improves service, and it adds a third dividend, a decreased risk to enhance expertise in specialized functions.

Is everyone in here familiar with COBRA administration? Some of you Canadians may not be familiar with COBRA, but those of you in the U.S. have heard of COBRA, particularly if you're on the health and welfare side. Why would an employer not let a COBRA third-party administrator (TPA) handle that administration instead of doing it in-house? The TPA is the expert, so it reduces the company's risk of costly administrative and legal errors, and it improves the services to the former employees. Then the benefits department doesn't have to take all the calls from the former employees who want to know about their health insurance. In a presentation to the Southern Employee Benefits Conference in May 1993, David Partridge from Towers Perrin reiterates that there are three reasons for movements to outsourcing. One is the increased focus on the core business. He said, "We want to spend our discretionary management time and energy on the business of our business," and I can tell you that's true. As an owner of a business, I don't want to spend it on things that don't contribute to my bottom line.

The second reason is cost and quality. You're the consultant, you're the expert, and you should be able to do that function better and cheaper than we, the company, can do it internally.

The third reason is access to technology. Companies with less sophisticated automation have a greater tendency to outsource than companies with better technology or automation. I have 11 employees; I can't afford the most advanced technology internally to administer these benefits. You can bet I outsource. Not surprisingly, a company would rather invest in technology for its core business, preferably a profit-making area, than in benefits administration, which is perceived as profit taking.

While plan sponsors have been outsourcing the functions related to the defined-contribution plans for over two decades, the trend to outsource defined-benefit administration has only just begun to gather momentum in the last four or five years. The increasing number of vendors providing benefits administration is a result of the rising demand from employers to increase their outsource function in the areas of knowledge, funding, and technology.

So what can be outsourced in the benefits area? Any ideas? How about a summary plan description? How about that valuation? How about that government form? Think about things like Colonial Life that does so much on payroll deductions. Outsourcing takes it completely away from the employer. How about this whole concept of total benefits outsourcing? If you work for a company that has anything to do with employee benefits, one thing you have to provide is high-quality service. There can be no more comments like, "I'll look into it and get back to you." Proven experience—they want someone who has some experience in handling their plan. Experienced personnel. Most of the people in this room have years of experience, a good reputation, references and competitive pricing. I will tell you that competitive pricing is at the lowest end of the list. Why would a firm, whether a vendor organization or corporation, keep a function in-house if it can find the vendor who provides all of these factors for less than it does internally? You wouldn't. In the past, the vendor corporations have trimmed their cost, just like their client companies are doing. How many of you work for a company that has reengineered, rightsized, downsized, or whatever, in the last five years? Quite common, isn't it? Guess what? It's not over.

In order to respond to the increased demands of their current and prospective clients who are looking to outsource those benefits, the vendor corporations are beginning to staff up. They're restructuring but they're also staffing up. Firms that provide outsourcing services have more than doubled since 1984. Employment in those business service organizations now exceeds 6.2 million jobs. That's a lot of jobs. In the world of the actuary, according to Robert Kazel in the March 17, 1997 edition of *Business Insurance,* risk management consulting firms are competing among themselves, and also with the Big Six national accounting firms and many smaller accounting firms for actuarial assignments.

Why are these Big Six accounting firms pursuing actuaries? They provide actuarial services. But why? Because actuarial services are high-cost and require high expertise. They're a natural link to the tax and audit service that they provide to their clients. They, therefore, can offer a total package to their client, i.e., marrying that client to them longer. You must meet the client's total needs.

I think regulatory changes happen almost every year. Therefore, vendors must make commitments to the compliance area, just to keep up with the rapid changes that an employer might miss. Even if they're committing those resources to technology to respond with an advanced interactive voice response system, they are hiring and they are dedicating people to that area. Much of the demand comes from the Fortune 500 employers, who want to take advantage of the new technology and simultaneously focus their capital investment on their own core business. In addition, smaller employers may not have HR managers or benefit personnel or chief financial officers who can handle their benefits. So they look to vendors to handle them. Where are those jobs? The jobs can be found at insurance companies, consulting firms, TPAs, banks, accounting firms, with money managers, HMOs, PPOs, managed care firms, recordkeepers, and other benefit software vendors and law firms with an ERISA practice. I might add that law firms with an ERISA practice are one of the fastest growing areas in which actuaries are being hired.

So what are these vendors looking for? Experience. I do not know of any job in the employee benefits arena that does not require experience. I am assuming that if you're in this audience, that you have some level of experience in employee benefits. What kind of experience are they looking for? We've already established that the Big Six firm is looking for your actuarial experience as a bridge to establish future tax and audit business. One of the comments I hear from vendors is that candidates coming from the corporate side frequently do not understand the marketing environment that exists in a vendor or provider organization. It's important to remember that in a vendor or provider service organization every client is the most powerful person to them. The client is the employer. If vendors do not have clients, they don't have jobs.

When talking to individuals from the corporate side who are looking for new opportunities, I always talk to them about the difference in corporate culture. I like to compare the vendor's client to the president of a company. In a vendor organization, each client must receive the same attention as that corporate benefits manager gives the president of his or her company. Vendor organizations want to see you sell yourself as a person who can work in a marketing culture, even if the job you are seeking may not be perceived as having a marketing role. It is a marketing role. Professionals from the corporate side will say, we operated like a separate organization, and we constantly had to sell ourselves. You have to remember that in a vendor organization everyone, including those of you back in the actuarial department of the insurance company, must market to keep existing clients and bring in new clients. If they don't, they won't be in business very long.

It's a very important difference. Many vendors have difficulty seeing a marketing culture in Canada's more corporate background. The big difference lies between selling yourself internally and selling yourself externally. I was talking with someone who worked for a big insurance company, and then went to a smaller firm, and is now back with the big insurance company. He said that actuaries traditionally don't understand why or how to really market themselves. And that is a skill that each of you will need to work on. On the other side, those within a vendor organization are not skilled at interviewing. The corporate benefits person can't identify some of the skills that are transferable. So you, as an actuary, may need to help them identify the transferability of your skills. You will need to get some marketing instruction under your belt.

Vendors want people with experience handling multiple plans and multiple plan design. They will want to see how you will integrate with others who had the same job as you. You might be in a corporate environment where you may be the only one who handles a certain responsibility, such as the 401(k) plan or the health insurance plan. Vendors want to know how you can handle 30, 40, 50, or 60 plans like that. Those of you who are on the vendor provider side and are looking for new opportunities, focus your search beyond the type of company you're with. If your background is with an insurance company look to the TPAs, consulting firms, HMOs, and money management firms. Don't forget the communication or software vendors. They are growing very, very rapidly.

I was on a plane going to New York the other day. It was one of those 6 a.m. flights so everybody sleeps until the flight attendants start serving the breakfast. We woke up and the guy next to me says, "I sell software. What do you do? I said, "Well, I'm in the employee benefits industry." "Oh really, what do you do?" And I told him that I own AH Enterprises and Total Benefits Communications, and he says, "Oh, I know you." Now I'm wondering who this guy is? He's second in command at a very large company. All of you would have heard of it. They sell interactive voice technology systems. This guy began with one of the major consulting firms in the U.S., and then went to another consulting firm, and now he is an actuary. He then decided that he didn't want to be an actuary after about eight years, so he went into the banking business, and then he decided he didn't like banking. This guy is only about 40 years old. He then went to work and became the benefits manager for one of the nation’s largest temporary health agencies. About a year ago he moved over to the software firm. Why did he get hired? Because of his total technical background.

Everyone should look for these little niches—the one or two functions that a company (whether a vendor or corporate organization) can outsource. Some firms provide a bundled product and there are firms in this room that do this. You provide a bundled product that is actually made up of several activities that are done by separate firms. This is very, very common on the 401(k) side. Insurance companies will sell a bundled 401(k) product, but the administration is done by a TPA firm that's independently owned. The money is handled by four or five different money managers. The recordkeeping in the plan administration is sent somewhere else, but the employer thinks they bought a bundled product.

What about doing a claims audit for an insurance company? There's a number of people that did those at home. What about specializing in writing summary plan descriptions? I know a woman in San Francisco who does nothing but administer qualified domestic relations order. That's all she does and she's good at it. Why would you not form an alliance that competes with the Big Six's? Form a small risk management firm and use your actuarial skills. These are great ideas if you're willing to be your own boss. You actuaries should be delighted to know that 40% of a risk management practice is devoted to actuarial work currently, 40%. In the 1980s, that amount was only 20%. That's according to the March 17, 1997 edition of *Business Insurance*.

Become an expert in a niche and develop a following, and those clients will come to you for additional services. Let's look to trends and products and legislation for ideas. For example, you could become an expert in risk assessment for specialty insurance products. Who is familiar with Employment Practices Liability insurance? With companies being sued by employees for alleged racial, age, or sex discrimination, wrongful termination, etc., this product sprung onto the market in the early 1990s. Its purpose is to limit a company's legal exposure. Very few companies are covered and claims data to assess risk is sketchy at best. In this age of mergers and acquisitions, senior managers are becoming more interested in this product to cover potential lawsuits from former employees of acquired companies.

Perhaps there are some of you out there who might want to expand your knowledge of Employment Practices Liability. It's growing rapidly. One of the most important things you should walk away with is the knowledge that you must broaden your search and your skills. As I mentioned before, keep abreast of government legislation, and be aware of trends. Stay technologically in touch with your PC, and don't become “office machine challenged.” I cannot use the term handicapped anymore because of the Americans with Disabilities Act.

Downsizing has eliminated administrative assistants in many departments. You need to know how to create or produce your own letters, copies, faxes, voice mail, and e-mail, unless, of course, you can justify outsourcing this task. Watch smaller firms for opportunities, as in the aforementioned risk management firm. Yes, you may get more benefits as an employee with a large firm, but you'll have less autonomy and less freedom. In a small firm you'll have more job diversity with the opportunity to wear more hats and make more decisions.

I'll tell you about an employee I hired last fall. His name is Mike, and he worked for Metropolitan Life in their pension division for 27 years. He came to work for me and he's still looking for the management information systems (MIS) department. I keep telling him, Mike, you are the MIS department. He will tell you that one of the most difficult things he's had to do is to make that shift from a large company to a small company. You will wear so many hats, it's unreal.

Here's another new term that you may not have heard that you'll hear more—contingent workers. Who are these people? They are, either by choice or circumstance, part-time workers, seasonal workers, temporary workers, leased workers, independent contractors, home-based workers, interns, and co-op students. There are many people like this supplying a service in a niche market.

In today's world, actuaries are providing services that brokers prepared 20 years ago, such as funding levels, an analysis of a retirement program, a cost-benefit analysis on self-insured alternatives, reserves on stop-loss insurance for self-insured lawsuits, future year funding, and claims cost. One of my companies has a number of different divisions, and I am now trying to figure out which divisions are profitable. I am sure that many of you in this audience have careers that would have been considered atypical 20 years ago.

My next overhead is of a resume of a gentleman in Atlanta. I want to talk about his background. Look at his "zigzag" past. I changed his name to protect the innocent. He started out at the MNO & Company, which is actually one of the major consulting firms. Many of you are from that firm. The GHI & JKL is a smaller firm, but it's still fairly major, and most of you have probably heard of it. DEF Bank is a bank that you would have absolutely heard of. And ABC Bank is a bank that announced that it’s getting out of the 401(k) business. Guess why I had this resume?

Let's discuss how he has progressed using his background. He started out in actuarial work and his career has evolved to parallel the changes of the benefit structures today. Benefit structures no longer focus primarily on the defined-benefit plan, as many of you know. He has zigzagged. Where could Mr. X go from this point? He could start his own business, of course. With his multinational experience, he could expand his knowledge base globally with international plans. The information age is driving us towards a more global economy because actuarial roles are changing. The curriculum for the SOA is being re-engineered for the year 2000. Keep in mind the year 2000 is only 2 ½ years away.

The courses are transitioning to topics that work across global economies: theory of economics, unified theory of investment—these are ideas that are not country specific. By the year 2000 there will be two basic courses, mathematical foundations, interest theory of economics and finance. I didn't hear any countries there. Some fundamentals of actuarial practice are statistics, actuarial modeling of contingencies, methods of actuarial modeling, application of basic actuarial principles, and finance and investments. Seminars are held on the following topics: applied actuarial modeling, advanced specializations, finance, group life (individual and group health), managed care, individual insurance, investments, and pensions.

Last, an actuary will choose a special interest for a 50-hour professional development, mentored, research project. The actuary will finalize these studies with the Fellowship Admission Course, which explores legal and ethical obligations. The new SOA course emphasis is to put a financial measure on risk which is very different from where actuaries began. Continuing education needs are in the beginning stage of reengineering. The question you need to be asking is, how might I develop my career? Look at part-time projects and contract work. Broaden your studies. Become technologically competent. I can't tell you how important that is. Six years ago I learned how to turn on a computer.

Learn how to market yourself. Look to the smaller firms and join organizations. Go to meetings and socialize—even if it's a meeting that may not appear to have anything to do with what you're looking for. In closing, be open to part-time opportunities or project work or working as an independent contractor. I was telling Dorn that one of my firms has 1,200 independent contractors. Although I don't know, I'm going to guess about 100–150 of them are actuaries. Whether in or outside the work place, attend meetings, join organizations, and socialize. Never shut a door. You never know who you will meet, and you may be able to bring that additional experience to the table for your next client or employer. I started my own business just over seven years ago, and it has evolved beyond anything I ever imagined. Learn to be an innovative facilitator, and a creative problem solver, and success will follow you.

Mr. Swerdlin: Next I'd like to introduce George Amato, who is currently president of Faro Consultants International, which is an executive search firm in the Washington, DC area established this January. He specializes in employee benefits, compensation, and actuarial consulting positions nationally and in western Europe.

Before that, George was the co-founder and president of Harbor Consultants, and before that from 1979 to 1992, he was vice president and office manager of the McCormick Group of Arlington, Virginia, an executive search firm with offices in four states. He spent nine years overseas in Asia and Latin America with some U.S.-based companies in international sales and marketing.

Mr. George Amato: I'm a recruiter. And if you're not getting calls from recruiters, then we need to talk about that as well. You should get them every once in a while. If anything, we keep you informed as to what's going on in the marketplace.

I have a different perspective on the trends and where the profession is going in employee benefits. For the past eight or nine years, I have been recruiting actuaries and employee benefits consultants for consulting firms. I look at where the profession is going from the perspective of the consulting firms themselves. I don't work with insurance companies, I don't work with corporations, although that's starting to change a little bit, because they're becoming consulting firms. I see what their demands are, and if I try to look out and project what's happening five years from now, that's very difficult for me to do because the assignments I get from the firms I deal with have an immediate need. When they're planning and projecting where they're going, and what new areas they're going to develop in their practices, they tend not to go to a headhunter and ask them to find somebody that can fill the position. This is an investment in the future, and they don't like to pay recruiting fees for investments in the future. They like to pay recruiting fees for immediate needs so they can plug up holes in their organization.

What is happening with their clients? As Anne said, in corporate America, which are the clients of these consulting firms, there is still a lot of downsizing taking place. The companies are reducing the head count and reducing personnel not directly involved in their core business. So if you look at employee benefits at most companies, it's part of their HR department. The HR functions in organizations are being automated, and it's being eliminated. In other words, it is being outsourced.

Technology is helping firms to do this with call systems. Another recent trend is putting all employee benefits or a good deal of them on corporate Intranets. About 27% of large corporations now have begun providing benefit services to employees on their Intranets. A recent survey done by Buck Consultants said that 56% of major corporations are, within the next year, going to develop some kind of employee benefits services for employees on their own Intranet systems.

The employee benefits consulting firms, as many of you have heard, have been merging and consolidating like many industries. They're buying each other, they're merging, and there have been some major acquisitions recently within the last seven or eight months. So what's the impact? I have not seen in the last two years a reduction in any firm's staff, whether they've been acquired, bought out, or whatever. They're still hiring, they're still expanding and now they've eliminated some positions, where there was some duplication. These firms are growing in numbers, but why is this happening? It is because corporations are downsizing and outsourcing those functions to these consulting firms. One trend in employee benefits consulting is the mergers and consolidations of the major firms, but it's not resulting in any downsizing on their part.

The second trend that I've seen over the last three or four years is what people use to refer to actuarial consulting firms: ABC Practices, actuarial benefits, and compensation practices. Most of these firms are broadening their services, which is some of the reasons why these acquisitions have occurred. They're becoming HR and management consulting-oriented firms. Fewer of them are pure actuarial consulting firms, and many more are management consulting with a broader perspective. Again, bundling services creates one-stop shopping, which is what they're trying to accomplish.

For example, the Big Six accounting firms all have HR consulting practices, and if they had an employee benefits or actuarial consulting practice in the past, it has now come under the umbrella of their HR consulting practices. They've even changed the names. In the ABC practice, my brand is now called the HR Advisory Group. The company and benefit practice at Arthur Andersen is now called the Human Capital Resources Consulting Group. As you can see, these firms are getting into the business of providing a broad range of services. There is HR management consulting, financial consulting services, and the benefit piece is now a part of the firm instead of just a practice area unto itself. The same goes for what were considered years ago traditional actuarial consulting firms. Wyatt, Milliman and Robertson, Hewitt, and Towers Perrin have broadened their services to provide a much wider range of consulting advice for their client companies, because their client companies need it and want it. These firms don't want their clients going somewhere else to get their risk management services or their HR strategy consulting. So the trend in employee benefits consulting is that the consulting firms are creating much broader and wider practices, and the employee benefits piece of it is just a piece, instead of the core business.

I would say about ten years ago, when I first focused on actuarial consulting, I was dealing with the benefit consulting firms and about 50% of the people they were hiring were actuaries. About 30% were other general benefits consultants. They were health care consultants, compensation consultants, and about 20% were individuals with a legal background. They were attorneys who specialized in the benefits field. In 1996, 50% of the people and professionals that I placed in consulting firms have a legal background. About 30% of the general benefits consultants had a particular emphasis in the health care field.

Mr. Swerdlin: Now that the employee benefits department has become a subset of a larger HR department, does that make it less important to the firm as a whole? Has that happened yet?

Mr. Amato: No, I haven't seen that. If you look at it structurally, it looks like it's less important because now they're a piece of something else. But no, it's expanding, it's growing. Employee benefits consulting is a practice area that's continuing to expand. It's now a part of a much larger practice.

The type of people that the traditional actuarial benefits consulting firms are hiring has changed. These firms are hiring more nonactuaries, and nontraditional actuarial firms are hiring more actuaries. So there's an expansion going on. There's more demand for actuarial talent among these consulting firms now than I’ve seen in the last decade.

What skills are they looking for? I can look at a resume and evaluate what the potential is for that individual fairly quickly. I'd have to talk to him or her, of course, but there are some things that jump out at me in terms of skill sets. These firms are still looking for technical expertise, as they always have. But beyond that they're looking for people who have a much broader perspective. They're not looking so much for the narrowly focused individual as they were in the past, like someone who is an expert in a particular tax code. They're looking for someone with technical expertise that has a broader perspective. They're looking for not only actuarial knowledge and skills, but understanding of the legal impact, the tax implications, and the compliance implications. They're looking at the bottom part of the resume which indicates to me that this individual has some technical expertise. He or she has some technical roles and has learned some skills. What are they looking for beyond that? They're also looking for communication skills such as good verbal skills, good written skills, and good sales skills.

The resume we used as an example tells me that this person has all of that. Because he has been in the client role, he has been a relationship manager, which means he's dealing with clients. Does that mean he can sell? He probably can, and sales is very frightening. The concept of a salesperson is somebody who has a golden tongue, is glib, articulate, makes a good presentation, has a good physical appearance, can overcome objectives, and can close the sale. That's what sales used to be. We're talking about employee benefits consulting. We're talking about being in a position, because of your knowledge and education, that affords you the opportunity to help an organization solve some problems.

So what are real sales skills? The primary sales skill is the ability to listen. That's the first thing a salesperson does. When I get on the telephone and call somebody to find someone for a position, my actual sales presentation to that individual (and some of you may have gotten calls from me) lasts about 20 seconds because I want the person to start talking. I want to listen to what they have to say. I want to listen to what questions they have, what concerns they have. It's just like walking into a potential client or an existing client. We need to listen to what they think their problems are. Then you can question it. You question everything people say until you understand it. I'm not an actuary, so I don't know how to do the things you do. I ask enough questions until I understand what it is you do. So listening and questioning and then evaluating the information is something you all should be very good at. Then you can present solutions to the problem. That's the sales process. It's not a matter of picking up the telephone or banging on somebody's door and making a cold call. You really don't have to do that very often. I do it a lot, and it's uncomfortable. I don't like picking up the phone and making a cold call, so to speak. That is not what sales is all about. Those are skills they're looking for. They're looking for this relationship building, the ability to know what you're talking about, and that enables you to understand the concerns or the problems or the issues of the person you're dealing with so that you can come up with solutions. That's what this business is all about—consulting.

How can I project all this out to the future? Where are we going? It's difficult because I know what the demands and critical needs are of the firms I deal with. There are critical needs. Over the last three weeks, I called up about 25 senior level consulting actuaries who are in the profession now. They were all FSAs or ASAs and all with ten or more years of experience. And I asked them questions like, where do they see the profession going? What new trends and technologies are there? What is surprising is most of them were not able to answer those questions. They could tell me what they were doing now, and what they might be doing next month, but it wasn't very enlightening. All they could say and basically what they confirmed was what we've heard so far and that is that the field is changing. It's changing and becoming less technical and more and more management consulting oriented.

And then when I tried to probe further, the cop out is, “We're not sure what we'll be doing next year because so much depends on government legislation.” When somebody messes with tax law, it creates a lot of work. I guess we hope people mess with taxes so it creates lots of work and a lot of demand for our skills. That's the unpredictable part of it. What new legislation is going to create a tremendous amount of work for us all. Who knows?

Let’s talk about the career moves as I see them. When you look at any professional service organization, accounting firm, law firm, or consulting firm, you’ll find that they tend to be very flat organizations. There are partners, owners, and principals at one level, and then there are two other levels in administrative support. So you don't have a hierarchy, and the career progression isn't upward, up the career ladder, because the career ladder doesn't exist. They have very flat organizational structures. Therefore, career moves in the profession are lateral moves. They're moves that will help individuals gain something. We'll talk about what the motivations are and what people expect to get out of career moves.

In the last three or four years, of most of the people I have recruited and placed, 99% of them rarely move because of a significant salary increase. Most of the time it's not an individual's primary motivation. So what are they moving for? They move for growth potential, broader roles, more responsibility, and to work for more entrepreneurial types of organizations. There many factors that help people advance their careers, advance their knowledge, and advance their skill sets. What kind of opportunities are these? One of the main reasons people move is because of professional development. There might be some new technology. Perhaps the organization is ahead or on the leading edge. I want to be part of that. So if you're in a position that you really like, that you're very comfortable with that hasn't changed much, and you feel very confident that you can do the job well, handle any problems that come along and feel secure and comfortable, then you're in trouble. If things aren't changing, you're not being challenged, and you're getting left behind. It's nice to be comfortable, but you have to constantly progress. As Anne said, things are changing so fast we can't keep up. You have to change with the times.

So people are moving for professional development. They're moving for what they perceive as growth opportunities. It tends to be with the company. You go to an organization that's moving up quickly, expanding, making money, weaving an organization, it's not doing so well. You move from one organization to another because of the pay structure. More and more positions in consulting are now oriented less towards salary and more towards pay for performance. There are smaller base salaries and bigger bonuses based upon performance. People move for lifestyle changes in many cases: location, shorter commute, nicer area to raise your kids, or whatever. Location is a big factor. Travel is usually less of a factor rather than more of a factor.

This firm's clients are all in this one metropolitan area; therefore, you don't have to travel all over the country to visit clients. Other factors are the work day, hours, pressure, stability, and security. Even the federal government position isn't stable and secure anymore.

Ms. McKillips: Try going into business for yourself. Talk about security.

Mr. Amato: Now stability and security does come from an organization that's financially solid and profitable and growing. If you're part of that organization, then that's the kind of organization that can obviously provide some stability and security. With positions, there isn't the job security as there used to be. You have to look more towards yourself as someone who's going to perform and justify your existence.

The positions for actuaries in employee benefits consulting are in a number of different types of organizations. Anne talked about most of them. They're with TPAs, accounting firms, HR consulting practices, traditional employee benefits actuarial firms, health care providers, and other organizations that are providing employee benefits services to companies. A company I would have never thought of doing business with two years ago is now one of my best clients—Automated Data Processing. It's no longer a payroll company. It now owns a couple of huge TPAs. It does claims administration and 401(k) recordkeeping. It acquired an actuarial consulting firm and is in the business in a big way. It's a big company with lots of money and lots of technology. It wants to provide its clients for whom they're doing the payroll all these other services that are impacted by payroll. Mellon Bank is now in this business. It has a very traditional actuarial consulting firm called Buck Consultants. It is now part of Mellon Bank. I haven't done any business with it yet, but I probably will someday. There are lots of organizations in the employee benefits consulting field that are going to be hiring actuarial talent now and in the future. When I talk about accounting firms, I'm not talking about just the Big Six firms. There are many local and regional accounting firms that are now developing actuarial benefits consulting practices. It's an expanding market, and the function of actuaries is expanding.

The clients are looking for financial and business solutions to problems. Almost all the actuaries, when I asked them where they think the actuarial benefits consulting profession is going, said that an actuaries' mind-set will have to change. They have to become more business oriented. They have to look at the impact on a business overall. They have to look at solutions and their effect on the business itself. In other words, you have to begin to understand what that particular business is all about, in order to know what the impact of its benefits is on its bottom line. We're looking at a company and then the benefits and the impact of the cost of those benefits on that company. How does it fit in with their strategies.

You know, this is a very elite society. It's not easy to get into. Actuaries are highly educated and intelligent. You have a tremendous amount of talent. This talent can be used very effectively in employee benefits consulting. It is in demand. But the profession is going in a little bit different direction than it has in the past. And benefits consulting now has a much broader focus on the overall strategies of corporations.

A consulting firm would probably be interested in someone with the background of the fellow in the resume example. It's a fairly nice career progression. Does he have actuarial credentials, by the way?

Mr. Swerdlin: Two or three exams, I think.

Ms. McKillips: He's in Atlanta. His only criteria is that his wife has a higher paying job in Atlanta so he has to stay in Atlanta.

Mr. Amato: If he had an FSA after his name, it would even be better. Credentials do help. It's a big asset to consulting firms to have employees with credentials such as advanced degrees, certifications, FAS, ASAs, JDs, or whatever. They sell that expertise to their clients.

Ms. McKillips: George, I want to throw out one thing that I found interesting in your comments. I was making some notes as you were talking. We talk about employee benefits, and these benefits have been designed for our paternalistic society, but today's employees want more individual control. There are dual career families and the individual shift to the choice. It's not that employers are not buying group products. They're buying group products but they really have to have an individual piece because they're really almost individual products. That's all I kept hearing. We get to design this stuff to meet the individual's needs.

Ms. Beverly J. Orth: I'm an attorney and an actuary and I practiced tax law for six years before going to a consulting firm and then starting the actuarial exams. Anne, you said there were law firms that hire actuaries. I'd like to know where those law firms are. I haven't heard of any.

Ms. McKillips: I happen to know of two in Atlanta and one in New York, right off the top of my head.

Ms. Orth: None on the West Coast?

Ms. McKillips: None comes to mind, but don't let me discount that. I have about 7,000 names on my database, so I may not remember everybody.

Ms. Orth: I'm not familiar with any in the two cities in which I've worked.

Ms. McKillips: There is one in San Francisco; there is one in Boston; there is one in Baltimore, but the name slips my mind. There was a former principal at Mercer who was an FSA and then went with a smaller consulting firm. While she was at that firm she got her JD, so she had 20 years of experience in the actuarial profession. She then got her law degree and went to work for a law firm in Baltimore. She subsequently went back to a consulting firm. I guess she didn't like being a lawyer, but I don't know for sure.

There's also a small accounting firm in Atlanta. I say small because they just formed a defined-contribution, recordkeeping division, and it has recently hired a part-time actuary. The company doesn’t do any employee benefit consulting work, as a Big Six accounting firm does. They like to do my taxes. I can't tell you who that firm is.

Mr. Michael J. Cowell: I am a life actuary and not an employee benefits actuary. I've been concerned about some of the directions I see in employee benefits lately. A couple of you alluded to a shift from paternalism to employees taking care of their own benefits. I see a discontinuity in two respects. I'm not advocating for the old paternal style in which I grew up. It had many negatives. At least you had large pools of pension funds efficiently managed by professionals. As we shift now to people taking responsibility for essentially managing their own 401(k) and defined-contribution plans, you have millions of people who are not financially sophisticated. You have companies that have, in effect, "saved" the administration costs by not employing the experts that manage these large pools of money. These companies give people a quick course on how to manage their pension funds. I'm very concerned about what we're going to see 20, 30, or 40 years from now with millions of relatively financially unsophisticated people trying to manage their own retirement plans.

Ms. McKillips: Did you see the article in the, I believe, February 1996 issue of *Pension Investment Age*? The article was about how some of the very large firms, the Fortune 100 companies, such as Nynex and Xerox, are starting to handle their defined-contribution assets, the 401(k) plan assets, as you would manage a defined-benefit fund. They are creating their own "fund of funds" and many of you might have heard that phrase if you're in the pension area. They'll have available to the participant an international fund, and they'll have on-staff investment professionals. It will have some from Templeton and some from Putnam and some from whoever has the international funds out there. They will create it and then, once a month, give the participants the aggregate interest rate to pick the best of the best because that is a major concern. I maintain that sometime in the foreseeable future, on our cable news network at night, you're going to see a commercial where some attorneys are advertising and saying, if you don't have enough to retire on, call us. And they're going to sue employers for not giving them the information to make the best decision for their situation. I cannot agree with you more.

Mr. Amato: And my response to that is, again, from a consultants' perspective. Consulting firms or consultants are going to see that as a business opportunity. They're going to see the problem to which you just alluded, and they're going to come up with some solutions. You'll see more and more actuaries becoming financial planners, going for their certified financial planning designation, and becoming a personal financial planner in order to address this kind of issue.

Ms. McKillips: I can't tell you how much it's happening. My other firm, Total Benefits Communications, does employee meetings, and now we are educating somebody on what a 401(k) is or what a health plan is, and things like that. It's more investment education. We're doing more and more of that because plan sponsors are turning to their vendors—the insurance companies, the consulting houses, and the accounting firms. They don't want to ask employees to assume this responsibility without fulfilling their part of the obligation and educating them to make the best decision for their situation. It's a very scary situation. You might be asking a 21-year-old to become an investor. At 21, I didn't know the difference between a stock and a bond, much less be able to figure out which fund to invest in.

Mr. Amato: The first question in my informal survey of 25 senior actuaries is, what areas, if any, should actuaries consider getting into? The response I got from most of them was, we're just speculating. One of the trends they saw was software development, the management of software, the implementation of software, and the sales of software. The next one was general assessment and evaluation of financial risk to include investment risk analysis. Third, let's evaluate legislative changes and the impact on specific businesses and industries. Industry specializations are going to become a bigger factor in the future. Fourth was the administration of health care.

Ms. McKillips: Health care is really growing now. I'm really hearing a lot about that. I think we need to keep in mind that the original reason that people put an employee benefit in was to recruit and retain employees. We need to make sure those of you who work in product development, which includes a number of these people at this conference, design products for today's work force. It's very different from the previous work force. People in their 20s have a totally different perspective on life than I did when I was in my 20s. Now I have children in their 20s and they have a very different perspective on life. They want control of their life; they don't want to be tied to you and an employer. Many of you in here are shaking your head because you either have kids or people reporting to you that are in their 20s. I have two 21-year-old employees. They call me their work mother because I just sit there in total amazement. They're great workers, but their mentality is very different. They're absolutely interested in the benefits, and not just the health care benefits. Most single people want to know about the 401(k). I have 100% participation in our 401(k) internally. We passed the test on the first go around because we do investment education and we really push it and they really care. And you'll see it.